



# Montgomery County Consolidated Retiree Health Benefits Trust

## Governance Manual

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## **I) PURPOSE**

This Governance Manual summarizes the governance structure established by the Board of Trustees (the "Board") to ensure prudent, effective and efficient management of the assets of the Montgomery County Consolidated Retiree Health Benefits Trust ("CRHBT" or "Trust"). It is a guide to assist the Board in fulfilling its fiduciary responsibilities and to facilitate the organized, efficient, and cohesive functioning of the management of the CRHBT. This manual also outlines the roles and responsibilities of the various entities overseeing the administration of the Trust and establishes and documents practices and procedures with the intent of having a positive impact on performance and risk oversight. The stronger the governance of the Trust, the better risks (such as operational risk, investment risk) will be managed and controlled. In addition, the Board is committed to encouraging service providers to adopt policies and practices that are designed to control risk and enhance long-term financial performance. We believe that high standards of corporate responsibility generally make good business sense and can have a positive material impact on investment risk and return. The Board believes it can provide consistent, long-term performance at appropriate levels of risk by taking into account various material financial and non-financial factors as defined throughout this Governance Manual.

The Board may choose to consider Environmental Social and Governance (ESG) factors, provided they are consistent with the Boards' obligations to the participants and beneficiaries of the CRHBT and with the standard of care established by the Montgomery County Code. In cases where the investment characteristics, including return, risk, liquidity, and compliance with the Boards' Governance Policy and Statement of Investment Policy & Objectives, are appropriate, the Board may consider ESG factors that have a substantial, direct and measurable benefit to the economic interests of the Trust, provided these factors are consistent with the Boards' fiduciary duty.

## **II) BYLAWS**

### **A) ARTICLE I - Purpose**

Purpose. The purpose of the Board of Trustees (the "Board") is to establish, monitor, and modify, as needed, systems for the receipt, custody, disbursement and investment management of the assets of the Consolidated Retiree Health Benefits Trust (CRHBT) in accordance with the laws of Montgomery County, Maryland, as amended.

### **B) ARTICLE II - Membership**

2.1. Membership. The Board consists of nineteen members, appointed by the County Executive and confirmed by the County Council, to include:

- a) the Montgomery County Directors of the Department of Finance, the Office of Human Resources, and the Office of Management and Budget, and the Council Staff Director;
- b) one individual recommended by the Office, Professional, and Technical (OPT) and Service, Labor and Trades (SLT) bargaining units; one individual recommended by the Fire and Rescue Unit; and one individual nominated by the Fraternal Order of Police.;
- c) one active County government employee who is a vested member of the County's Retirement System and Merit System and who is not a member of a collective bargaining unit;
- d) a retired member of the County's Retirement System;
- e) two persons recommended by the County Council who are knowledgeable in pensions, investments or financial matters;
- f) and two individuals knowledgeable in pensions or financial matters (33-59(b))

- g) three persons nominated by the Montgomery County Board of Education, a designee of the Superintendent, an active employee of the Montgomery County Public Schools who is a member of a bargaining unit, and a retiree of the Montgomery County Public Schools.
- h) three persons nominated by the Board of Trustees of Montgomery College, a designee of the President, an active employee of Montgomery College who a member of a bargaining unit, and a retiree of Montgomery College.

2.2. Terms. Except for ex-officio officers of the County Government, the individuals nominated by the County Government's bargaining units, the individuals nominated by the Board of Education and the Board of Trustees of Montgomery College who serve indefinitely while holding office, a 3 year term ends on March 1 of every third year after confirmation by the Council. (33-59(b)(2), (3) and (4))

2.3 No member may serve more than two consecutive full terms. This requirement may be waived if there are no other qualified candidates or other unique circumstances justify reappointment. (2-148)

### **C) ARTICLE III - Officers**

3.1. Officers. The officers of the Board consist of a Chair, a Vice Chair, and a Secretary. The officers shall be nominated from the floor and elected by the members at a meeting. (33-160(g)) Each officer shall be elected from a different constituency group. The constituency groups are: (a) County government ex officio members; (b) members selected by the Council and Executive; (c) members selected by the County government collective bargaining units; (d) the member selected on behalf of the unrepresented County government employees; (e) the member selected on behalf of retired County government retired employees; (f) the members selected by Montgomery College; and (g) the members selected by Montgomery County Public Schools.

3.2. Officer Terms. The term of the Chair, Vice Chair and Secretary shall be one year. No officer may serve more than one term in a particular office. A member who replaces an officer during a term may only serve for the remainder of the term.

3.3 Rotation of Officers. The officers shall rotate so that for the following year the Secretary will serve as Vice Chair and the Vice Chair will serve as Chair. A member may decline to serve and another member of that constituency group, if applicable, may serve in that officer rotation. If there is no other member of the constituency group, the Board will elect another member to serve as the officer.

3.4. Officer Elections. Officer elections shall take place at the September meeting of the Board or the next meeting thereafter in the absence of a September meeting. If an officer is unable to complete a term, the Board must elect a member to serve the remainder of the term. The election of a replacement must be made at the first Board meeting following the receipt by the Board of either formal or informal notice of the officer's inability or unwillingness to complete the term.

3.5. Chair and Vice Chair Responsibilities. The Chair must conduct the meeting. In the Chair's absence, the Vice Chair must conduct the meeting. If both the Chair and the Vice Chair are absent from a meeting, the members present must elect a member to act as the Chair for the meeting. (33-160(f)).

The Chair may take administrative action on behalf of the Board. (33-160(f)(1)).

The Vice Chair must perform the duties and exercise the powers of the Chair when the Chair is absent from the County or disabled, or the Board determines is otherwise unable to perform the duties of the Chair. (33-160(f)(2))

3.6. Secretary Responsibilities. The Secretary must record the proceedings and actions of the Board and may certify a document or action of the Board. (33-160(f) (3)).

3.7 Facilitators. The Board may elect Board members to serve as facilitators to assist the Chair with administrative and investment matters during meetings. The facilitators will be nominated from the floor and elected by the members during the September meeting of the Board. The term will be one year and the facilitator may not serve more than two consecutive terms unless the member served less than one half of a term in which case the member can serve for two full consecutive terms following the incomplete term.

3.8 Compliance and Audit Committee. At the September Board meeting, the Board will elect six Board members to serve on the Compliance and Audit Committee. The term will be one year and a committee member may not serve more than two consecutive terms unless the member served less than one half of a term in which case the member can serve for two full consecutive terms following the incomplete term. The Committee will assist the Board in its oversight responsibilities for financial reporting, internal controls and compliance with Board policies and applicable laws. The Committee will meet at least twice in a calendar year.

#### **D) ARTICLE IV - Meetings**

4.1 Meeting Schedule. The Board must meet at least once during each calendar quarter, (33-160(g)) but will generally schedule at least six meetings per calendar year. Before each calendar year, the Board shall set a meeting schedule. Board meeting dates may be changed by the consent of ten members of the Board and may be obtained, in writing, outside a meeting. The Chair or ten members of the Board may call additional Board meetings. (33-160(g)(1))

4.2. Attendance Requirements. The Board will apply the procedures for automatic removal set forth in County Code 2-148 if a member is absent from more than the permitted number of meetings under Code 2-148 (currently 2 scheduled meetings). A member who is absent from more than 25 percent of the scheduled meetings of the Board during any 12-month period has resigned from the Board. (33-160(c)(1). Scheduled meetings mean meetings held at least 7 days after notice of the meeting (33-160(c)(12-148)). For the first year of a member's term, attendance is based on a member's first 12 months otherwise the 12 month period is the calendar year. A member who is not present for at least half of the scheduled action items presented during a meeting is considered absent. A member may only participate by teleconference or videoconference for one-half of the scheduled meetings during a calendar year.

4.3. Meeting Locations. The Board shall meet in the Stella B. Werner Council Office Building, the Executive Office Building, or the official location of Board offices in Rockville, Maryland, unless the Chair, or a majority of the members, designates another location.

4.4. Meeting Notification. The Chair or the Chair's delegate must supply reasonable notice of the date, time, and place of meetings as required by the Maryland Open Meetings Act.

4.5. Special Meetings. Special meetings may be called by the Chair. Two business days' notice of special meetings must be given to each member of the Board. Such notice may be oral or written.

4.6 Emergency Meetings. The Chair may call an emergency meeting of the Board. Each member must file a written waiver of notice of any emergency meeting after the meeting.

4.7 Meeting Agendas. The Chair or the Chair's delegate must prepare a written agenda for each meeting. In accordance with Maryland law, the Executive Director will post the agenda of the open session on the Board's website. After the Chair calls a meeting to order, a member of the Board may move to add or delete from the agenda of that meeting or add an item to a future meeting's agenda. Addition or deletion of an item from the agenda at a current meeting requires the affirmative vote of a majority of all members present. The addition of an item to an agenda for a future meeting requires the request of the majority of Board members.

4.8. Meeting Materials. The written agenda must be mailed to the members at least one week before each meeting. Written information that will be addressed at a Board meeting should be received one week before each meeting. The Chair or the Chair's delegate must send an agenda and any information with respect to a meeting, which is not a regularly scheduled Board meeting, as early as possible prior to the meeting.

4.9. Quorum. A quorum consists of ten members of the Board. A quorum is required to conduct business of the Board. (33-160(g)(2)) Attendance by teleconference or videoconference is included for purposes of establishing a quorum.

4.10. Member Representation. A member of the Board cannot designate a substitute to sit and act in the member's place.

4.11 Closed Sessions. Closed session meetings that are not open to the general public may be held in accordance with the State law on meetings of public bodies. Information discussed and materials distributed during the closed session are deemed confidential.

4.12. Actions Taken Outside of Meetings. The Board may act without a meeting. All of the members must concur in writing for the Board to approve any action the Board takes without a meeting. (33-160(g)(3)). Any action taken outside of a meeting must be recorded in a Board resolution at the next Board meeting.

## **E) ARTICLE V - Conduct of Meetings**

5.1 Rules of Order. The Chair, or a majority of the members present at the meeting, may direct that the proceedings for a deliberative body as contained in the Robert's Rules of Order apply to meetings of the Board for an entire meeting, for a special purpose or during a certain time period of a meeting. Robert's Rules of Order govern when it is necessary to take formal action or decide controversial matters. (2-149) When the Robert's Rules of Order do not apply, the Chair must conduct a discussion informally. Any reference to Robert's Rules of Order means the latest published edition of such rules at the time an issue arises with respect to such rules.

5.2 Board Action Validity – Rules of Order. A Board action that is otherwise valid is not invalid because of the failure to follow Robert's Rules of Order.

5.3 Board Action Validity – Bylaws. Unless otherwise prohibited by law, if Board action is taken in a manner not in accordance with these Bylaws, that action is valid unless a majority of the members of the Board vote to rescind the action. A vote to rescind a Board action which was taken in a manner not in accordance with these Bylaws must be taken no later than the first meeting after the distribution of the draft minutes which refer to the relevant Board action, but in no event later than the next Board meeting.

## **F) ARTICLE VI - Minutes**

6.1 Requirement for Minutes. The Secretary or the Secretary's delegate must take minutes of all meetings of the Board. Minutes of a closed session meeting must be kept separately from minutes of the open meetings. All minutes must be prepared, distributed and maintained in accordance with the State law on meetings of public bodies.

6.2 Approval Process. Draft minutes of each Board meeting must be prepared by the Secretary or the Secretary's delegate and mailed to each member of the Board and counsel to the Board as soon as reasonably possible after the meeting. Draft minutes must be approved or corrected by vote of the Board at its next meeting to the extent the Board can reasonably do so. After minutes have been approved or corrected by the Board, the drafts of the minutes and any related notes must be destroyed.

6.3. Distribution. In accordance with Maryland law, the Executive Director will post the minutes on the Board's website as soon as practical after the meeting.

## **G) ARTICLE VII - Board Action**

7.1. Resolutions. An action of the Board must be evidenced by a resolution that must be contained in the minutes of the Board. A resolution must be initially moved by one member of the Board, seconded by another member of the Board and must receive an affirmative vote of ten members of the Board. (33-160(g)(2)) Resolutions are recorded in the minutes by number.

7.2. Voting Requirements. In order to vote, a member must be present. Alternatively, a member may participate in the meeting and vote by teleconference or videoconference if the member has access to all information necessary for making an informed decision. In order to participate by teleconference or videoconference, a member must participate and vote on at least half of all action items. For this purpose, an abstention is considered a vote.

7.3. Amendments. An amendment to a pending resolution or motion may be made only upon the affirmative vote of ten members of the Board.

## **H) ARTICLE VIII - Professional Staff**

8.1. Board Office Staff. The Chair may request the Chief Administrative Officer of the County to appoint persons to serve as staff to the Board. The Executive Director shall direct the staff and perform the duties set by the Board.

8.2 Public Information Requests. The Executive Director must respond to all public information requests in accordance with the State law on public records and rules adopted by the Board.

8.3 Information Requests. All requests from the media or third parties for information regarding Board actions must be directed to the Executive Director, or his or her designee, who will respond accordingly.

8.4 Execution of Documents. The Executive Director may execute documents on behalf of the Board.

## **I) ARTICLE IX - Compensation and Expenses**

9.1 Compensation. Members of the Board serve without compensation. (33-160(d))



9.2 Expense Reimbursements. The Board must authorize reimbursement to members, Board staff and Board counsel for all reasonable and proper expenses incurred in performing their duties. Board members may not receive reimbursement for expenses from any other source. (33-160(d)) Specific procedures for reimbursement are set forth in the Board's administrative manual.

#### **J) ARTICLE X - Reports**

10.1. Reporting Requirements. The Board will prepare the annual and quarterly reports pursuant to Montgomery County Code (sec. 33-163).

10.2. Preparation and Approval Process. The Executive Director must prepare and distribute quarterly and annual investment reports for consideration by the Board following confirmation of data received from the appropriate sources. Reports will be approved by the Board as soon as practicable thereafter, and filed as required by law.

#### **K) ARTICLE XI - Bond**

11.1. Custodian Bond Exemption. The Board shall not require a bond of the Director of Finance as custodian of the CRHBT in addition to the bond required as the Director of Finance.

#### **L) ARTICLE XII – Miscellaneous**

12.1 Signature Authorities for Payments. All payments from CRHBT assets must be made by (i) the County's Director of Finance, (ii) a designee of the County's Director of Finance, or (iii) two (2) persons designated by the Board, acting jointly. The Board must file a duly attested copy of the resolution of the board designating the two (2) persons, with specimen signatures of those persons, with the County's Director of Finance to indicate their authority for making payments. (33-164)

12.2. Mailing Address. The mailing address of the Board is the official location of Board offices at such address established in Rockville, Maryland.

12.3. Amendment of Bylaws. An amendment of the Bylaws may be made only in accordance with the following procedure. A draft amendment must be prepared distributed to Board members and the Board must have one week to consider the draft amendment. The Board may vote on an amendment at any meeting of the Board after the conclusion of the one week period. An amendment of the Bylaws must be approved by the affirmative vote of ten members.

### **III) ROLES AND RESPONSIBILITIES**

Consistent with its fiduciary role as Trustees, the Board's role is to establish policies and procedures to ensure that the CRHBT is appropriately governed and managed.

To ensure that the accountability and authority for governance and management of the CRHBT is clearly stated, the Board herein distinguishes the roles and responsibilities of the various parties responsible for management and administration of the Trust in the tables below. All parties listed below act as fiduciaries, with the exception of Board counsel and certain private fund managers. The denotation of "Staff" in the tables refers to the Staff Investment Committee, which is comprised of the Executive Director, Investment Officers, and Analysts.

<b>GOVERNANCE POLICY</b>			
<b>ROLE</b>	<b>BOARD</b>	<b>STAFF</b>	<b>INDEPENDENT 3<sup>RD</sup> PARTY</b>
<b>Determine governance (roles and responsibilities)</b>	Establishes and Approves	Input/Facilitate Discussion	Input (counsel)
<b>Establish and modify governance policies</b>	Approves	Input	Input (counsel)
<b>Annual operating budget</b>	Approves	Input	Input (County – Office of Management & Budget)

<b>GOVERNANCE MONITORING &amp; REPORTING</b>			
<b>ROLE</b>	<b>BOARD</b>	<b>STAFF</b>	<b>INDEPENDENT 3<sup>RD</sup> PARTY</b>
<b>Annual vendor evaluations</b>	Reviews	Transmits	Reports (all vendors)
<b>Contract execution and amendments</b>	Reviews	Executes (Executive Director)	Reports (counsel)
<b>Budget review to ensure administration in a responsible and cost effective manner</b>	Reviews	Reports	n/a
<b>Executive Director performance evaluation</b>	In conjunction with CAO	n/a	CAO in conjunction with Board
<b>Board meeting minutes</b>	Approves	Input	Records (counsel)
<b>Approval of outside counsel</b>	Recommends	Input	Approves (counsel)

<b>COMPLIANCE</b>			
<b>ROLE</b>	<b>BOARD</b>	<b>STAFF</b>	<b>INDEPENDENT 3<sup>RD</sup> PARTY</b>
<b>Ethics Commission financial disclosure statement</b>	Required filing	Required Filing	Required Filing (counsel)
<b>Board's Standards of Professional &amp; Ethical Conduct</b>	Required filing	Required Filing	Required Filing (counsel)
<b>Semi-annual risk and quarterly compliance</b>	Monitors/Reviews	Transmits	Reports (all vendors)
<b>Due diligence and continuing education travel (Board)</b> 1) requests 2) meeting evaluations	1) Approves 2) Reviews	1) Transmits 2) Reports	n/a
<b>Due diligence and continuing education travel (Staff)</b> 1) requests 2) meeting evaluations	1) Monitors 2) Reviews	1) Approves 2) Reports	n/a
<b>Annual disclosures</b>	Monitors/Reviews	Transmits	Reports (all vendors)
<b>Annual external financial audit</b>	Reviews	Input	Reports (auditor)
<b>Legislative reporting</b>	Approves	Input/Reports	Reports (counsel)

## **IV) SERVICE PROVIDER PROCUREMENT**

### **A) Background**

#### **1) Purpose of Policy Statement/Board Requirements**

The purpose of this statement is to define the policy of the Board of Trustees (the “Board”) regarding the procurement of external service providers. These services are required in the management of the investment program for the Consolidated Retiree Health Benefits Trust (CRHBT). The policy statement is intended to foster competition and fairness while being flexible to meet the needs of a dynamic investment environment.

This policy does not cover procurement of Board office administrative services, which generally follows established County contracts and procedures (i.e., procurement of supplies, mini-contracts, etc.) and is set forth in the Board’s Administrative Manual.

#### **2) Statutory Board Responsibility and Authority to Contract for Services**

Pursuant to Section 33-162 of the Montgomery County Code, the Board has the fiduciary responsibility for the governance of the CRHBT investment management program and has exclusive authority to contract for services to meet this responsibility.

#### **3) Board Exemption from County Procurement Regulations**

Pursuant to Section 33-162 of the Montgomery County Code, the Board is exempt from the Montgomery County Government procurement regulations in the procurement of services for the management of CRHBT assets. However, as detailed in this policy, the Board adheres to a competitive procurement process in the procurement of service providers.

#### **4) Communications Responsibilities**

Official communications related to Board procurement processes and activities will be coordinated by Board Staff. Staff will report items of significance to the Board as appropriate.

#### **5) Environmental Social and Governance (ESG) Policy**

It is the policy of the Board of Trustees for the County’s Retirement Plans that the Executive Director and Investment Staff incorporate ESG considerations into all investments considered or made by the CRHBT and examine opportunities for ESG integration in existing investments. This policy also applies to investment consultants and investment managers hired by the CRHBT to provide guidance on investment due diligence matters. The Board annually reviews engagement outcomes and updates this policy as appropriate.

The Executive Director ensures that this policy is part of the investment due diligence process. A comprehensive report describing the implementation and outcomes of this policy, including recommendations for updates or revisions to this policy, is provided to the Trustees as part of the year-end reporting process.

### **B) Procurement of Service Providers – Procedures**

1) Stage 1 –CRHBT Program requirements

The Board will determine the services necessary to meet the goals of the program, including:

- Hiring/Terminating of service providers
- Number of service providers sought
- Urgency/timeframe for search
- Consultant support required, if one is used

2) Stage 2 – Research Process

This stage involves determining search criteria and sources and the list of possible candidates that may meet Board needs as specified in Stage 1.

a) Criteria

Based on need, Staff will recommend a specific list of criteria for determining eligible vendors (“service providers”) for the CRHBT. The Board incorporates various factors when analyzing a service provider including whether the service provider acts in a responsible manner with regard to the environment, their employees and other constituents. The Board also evaluates the service provider’s corporate governance policies and practices and the impact these declarations may have on the financial sustainability of the firm. The initial criteria will pertain to minimum requirements related to expertise in the service area being procured. The Board may add additional criteria to be used in a particular search.

b) Candidate sources

Although not limited to the sources listed below, Staff generally uses these sources to identify eligible candidates. Staff may also use sources identified by the Board’s consultant(s), if one or more are used. The Board or Staff may recommend additional sources to be used in a particular search.

- Third-party databases including, consultant (if applicable) and other vendors
- Industry sources
- Marketing materials
- Institutional investor contacts
- Reports and sources used to identify emerging investment managers
- Montgomery County resources and information

c) Emerging Investment Managers

The Board, Staff and consultants (if applicable) are committed to including emerging investment managers, among prospective investment manager candidates, including businesses owned by women, minorities and disabled individuals. Emerging investment managers are:

- Firms with assets and/or product assets below the 75th percentile of their respective peer group; or
- New or developing firm which is

- Raising its first or second institutional fund or
- Creating its first institutional product

Special efforts will be made to ensure identification of possible eligible firms in the search process including:

- regular monitoring of above-referenced sources to identify possible candidates
- regular review of emerging investment managers
- Staff interviews with emerging firms on an ongoing basis
- maintenance of research files on such firms to assist efforts when searches begin

d) Evaluation of Candidates

Staff, in conjunction with the consultant (if applicable), will evaluate prospective candidates based on criteria related to organizational structure, investment process, historical performance, governance practices and policies, regulatory requirements and other related factors. We believe that focusing on the criteria identified above results in targeting prospective candidates whose operating framework is designed to maximize investment returns without exposure to undue risk.

e) Selection of Candidates

Based on criteria and sources noted above, Staff will prepare a list of possible candidates for a specific search. Staff, with the assistance of the investment consultant, if one is used, generally will issue a Request For Information (RFI) to the candidates selected. In special circumstances, with Board approval, Staff may not issue a RFI.

Due to the nature of private market and non-marketable investment opportunities, Staff may not issue a RFI. Staff may identify opportunities based on criteria identified in Stage 2 and will evaluate the opportunity based on the criteria identified in Stage 3.

3) Stage 3 – Review and Verification Process

Stage 3 of the search process focuses on review and verification of information pertaining to the list of candidates identified in Stage 2. Completion of the Stage 3 process should result in the selection of a finalist.

a) Due diligence evaluations

Staff will complete a due diligence process to confirm findings identified in Stage 2. Those candidates deemed to be eligible will be interviewed by Staff, and the Board's consultant (if applicable), by phone or in person in the Board's office.

Staff includes the consideration of a manager's ESG policies when selecting external active managers. The CRHBT and their external investment managers take material ESG factors into account throughout the investment decision making process when considering and evaluating an investment in publicly traded securities. When making direct investments in non-listed assets, the CRHBT considers ESG factors in a manner consistent with their approach to actively

investing in publicly traded securities. Prior to making an investment in any private market fund, staff incorporates ESG considerations as part of their normal due diligence process. This includes, where possible, management interviews, site visits, and general internet background information searches as part of a formal process.

Staff will prepare a summary of the candidate's evaluation which may include:

Quantitative

- Risk adjusted and absolute returns
- Return stream that is consistent with the underlying investment strategy
- Portfolio fit both historically and prospectively within asset class and at plan level
- Fees

Qualitative

- Organizational structure Competitive advantage
- Experience and depth of personnel, including turnover
- Firm specific operational philosophy
- In the case of limited partnership arrangements such as private equity, real estate or hedge funds, fund-specific aspects including but not limited to liquidity and tax issues
- Firm specific regulatory/legal/litigation issues
- Human capital management policies
- Compliance with governmental regulations

Other

- References from Board consultant(s)
- References from other sources
- Alignment of interest with stakeholders

b) Selection of finalist(s)

Staff will usually conduct an onsite due diligence review of the finalist(s) which will include an interview, and prepare a report, along with a due diligence evaluation form, with input from the Board consultant, if one is used, resulting in a recommendation of a finalist(s) to the Board. The selection of the finalist(s) will be based on both quantitative and qualitative evaluations as well as interviews and results of reference checks. Staff uses checklists and questionnaires to ensure consistency of implementation across both investments and investment team members. Any issues that arise during the due diligence process are brought to the attention of the investment team. The Executive Director is responsible for determining the materiality of such issues and is able to engage outside advisers as needed for the resolution of any issues.

c) Contracting

After Staff has selected any finalist(s), Staff, in conjunction with Board counsel, will evaluate the contract and governing documents to determine whether there are major issues with the service provider's contract or governing documents that would prohibit the Board from entering into a contract.

4) Stage 4 – Board Selection of Finalist(s) and Contract Process

The Board will vote on Staff's recommendation of any service provider(s) at a meeting of the Board pursuant to Board bylaws. Staff, with assistance from the Board's counsel,, will negotiate the terms of the contract or agreement.

a) Voting

The Board will vote based on all information made available by Staff, including information on the entire search process as summarized by Staff and the consultant, if one is used, subsequent materials prepared for Board consideration, final interviews and due diligence meetings, as applicable. The Board will vote by formal resolution.

If the Board does not vote to accept Staff's recommendation, then the Board will determine at what stage to recommence the procurement process.

b) Contract process and negotiations

Staff will pursue contract negotiations, including terms related to fees, operational issues and guidelines, and will apprise the Board if needed.

i) Agreements may follow a format approved by the Board and generally will include provisions for:

- establishment of the account and assignment of management and fiduciary responsibility if required
- directions pertaining to the operations of the account
- directions pertaining to Board and Staff authorities and communications
- professional liability insurance for errors and omissions
- fee and terms of invoicing and payment
- contract termination upon notice by either Board or service provider
- Board required disclosures
- addenda related to Board policies and procedures, and operational guidelines

ii) All service provider agreements will be reviewed by Staff and the Board's counsel to confirm conformance with Board policies and applicable law.

c) Contract execution

All agreements and contracts will be approved and executed in accordance with Board Bylaws.

**C) Monitoring of Service Providers**

1) Review process

Staff regularly conducts contract compliance reviews, including reviews of service provider performance, conformance to guidelines, organizational structure and any other performance requirements as specified in the service provider's contract. Service provider related matters other than performance and contract compliance matters will be reported to the Compliance and Audit Committee when deemed

significant by Staff, i.e. if the matter(s) have a possible effect on the service provider's ability to perform as expected. Staff will apprise the Board of performance issues and make recommendations to the Board as necessary. The Compliance and Audit Committee will assess compliance issues and make recommendations to the Board as necessary.

Staff will be accessible to, and engage with, relevant stakeholders and provide timely and transparent information accessible by stakeholders on the matters addressed in this policy. Generally Staff conducts reviews of all aspects of the service provider's contract on an annual basis and encourages governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest. The review may include a due diligence review in the service provider's office or the Board's office when necessary. Matters to be reviewed include but are not limited to the quantitative and qualitative factors which served as the basis for selection as a service provider. In addition, as part of the ongoing monitoring process, each service provider is required to provide the Board with a quarterly report affirming their compliance with contract terms as well as Board policies. These reports serve to notify the Board of changes in the service provider's organizational, operational and regulatory risk profiles.

Staff encourages and supports the adoption and implementation of sound ESG practices by companies in which the CRHBT invests and by investment managers hired. The CRHBT remains engaged with the managers of its private market investments during the life of the investment and monitors performance on ESG related issues. This monitoring may include attending annual meetings and advisory committee meetings and addresses performance at the organization, portfolio, and project/investment levels.

Annually the Compliance and Audit Committee will review and report compliance by Board service providers with contract disclosure requirements

## 2) Contract modifications

With the exception of minor guideline or contract changes, Staff will advise the Board of any suggested modifications to the contract terms, whether requested by the service provider or by Staff. Staff, with the assistance of Counsel, will determine the appropriate method of modification, i.e. contract amendment or letter agreement. Staff will recommend an approval method and background information required by the Board to consider any such modification. Staff will prepare an annual report to the Board reflecting recommendations of modifications to service provider contracts.

With the exception of minor guideline and contract changes, the Board approves contract modifications through Board resolution. For all minor guideline and contract changes, Staff, in conjunction with Board counsel, has the authority to recommend that the Board Chair approve the contract modification.

For all private market and non-marketable investments, Staff, in conjunction with Board counsel, will have the authority to recommend approval/disapproval to the Board Chair of all amendments to the governing documents proposed by the fund manager.

## 3) Advisory Boards

On a case-by-case basis, the Executive Director will determine which private fund advisory boards Staff, on behalf of the Board, should join or observe, taking into account the merits and risks of participation including evaluation of the governing



documents, in conjunction with Board counsel, to ensure that no express fiduciary role is undertaken. For advisory boards of which Staff is a voting member, Staff will keep meeting logs, including accounting of any votes cast, to document action items.

#### **D) Termination of Service Providers**

##### **1) Basis for termination**

With the exception of private market investments, the Board may terminate a service provider at any time and contract terms must provide for immediate termination upon written notice by the Board. Private market investments may not be easily liquidated and therefore immediate termination may not be possible. The Board may terminate service providers for any reason, including but not limited to one or more of the following reasons:

- CRHBT program changes
- Changes in the following:
  - people and organization of the firm
  - philosophy and process of investment strategy
  - resources dedicated to the investment strategy
  - performance of the product that is being reviewed
- Service providers -specific issues related to lack of adherence to contract terms or guidelines or any other changes in the service provider's business strategies.
- Regulatory requirements

##### **2) Procedures**

Staff provides background information regarding any basis for termination of a service provider to the Board. Action to terminate a service provider must be made by Board resolution. Staff determines and implements the appropriate account transfer/liquidation procedures, informing the Board as necessary.

#### **E) Records Retention**

Staff will maintain service provider records in the Board office. Service provider records will include search-related materials presented to the Board at the time of selection as well as legal and correspondence files. Records will be retained in accordance with Board office procedures. After the service provider relationship has ended, Staff will archive records in accordance with the Board office's records retention policy.

#### **F) Ethics**

The Board, and as applicable, Staff, will at all times conform to Standard of Professional and Ethical Conduct adopted by the Board and County ethics laws. In addition, individual Board and Staff members will disclose to the Board any inherent, potential, or perceived conflicts of interest in dealing with specific service providers prior to taking any official action concerning any service provider.

Any violation of County or Board ethics rules by any Board or Staff member will be handled in accordance with County Government procedures.

#### **G) Policy Review**

Staff and/or the Board will review and recommend amendments to this policy as necessary.

#### **H) County Code-Reporting Requirements**

In accordance with County Code Section 33-60B, the Board will annually report to the County Council and the Executive:

- the identity of each emerging investment manager used during the prior fiscal year;
- the percentage and dollar value of the assets and the investment sector managed by each emerging investment manager; and
- the good faith effort made to include emerging investment managers in the procurement process during the prior fiscal year.

#### **V) DUE DILIGENCE AND CONTINUING EDUCATION**

The Board has developed the following guidelines to ensure propriety in actions taken by Board and staff, keeping in mind community values.

##### **A) Objective**

The objectives of the Board and staff are to ensure:

- Business matters pertaining to the Board's investment program are properly attended to
- Board representation at selected meetings or conferences involving matters of investment-related importance to the Consolidated Retiree Health Benefits Trust (CRHBT), the Board, or the Board program (e.g. annual consultant conferences and annual meetings of membership organizations)
- The Board's fiduciary responsibility related to the "prudent person rule" as set forth under state and local law is met by providing adequate educational and networking opportunities to all Board members and staff
- Compliance with the Board's Annual Fiduciary Affirmation requiring Board members take any necessary training or education opportunities and to keep current on pension and investment developments.
- Maintain awareness of new and existing key ESG considerations and their impact on investment valuations, and update the due diligence process used to identify material ESG issues accordingly.
- Examine each existing or potential investment's material ESG risk exposure and use this knowledge when evaluating potential investments and during the duration of investment ownership.

##### **B) Review Process**

- 1) Board members: Due Diligence or Continuing Education requests by a Board member, when acting in his or her official capacity, as a representative of the Board, must be approved by the Board before expenses are incurred. All Board member requests will be reviewed in an Open Session of the Board meeting. In the case of a request which cannot be approved during a regularly scheduled Board meeting, a majority of the members of the Compliance & Audit Committee must approve the request.

- 2) Staff members: Due Diligence or Continuing Education for Board staff does not require Board approval unless:
  - a) The costs exceed the annual budgeted amount approved by the Board; or
  - b) The Due Diligence or Continuing Education expenses involve travel outside of the United States and Canada

If either exception exists, Board staff must obtain approval from the Board during either a regularly scheduled meeting or by a majority of the members of the Compliance & Audit Committee.

- 3) Criteria

The following criteria and procedures will be used to review all requests:

- must be solely in the interests of the beneficiaries and participants
- meets Board objectives
- costs are reasonable and within established County regulations
- third parties may not pay for expenses including: travel and lodging. Third parties may pay for conference registration, if the payment is extended to all public funds. Third parties do not include any managers and vendors with whom the Board has a current contract. To qualify for this exemption, current vendors and managers must be contractually obligated to pay for the expenses (e.g., alternative investments) or must pay expenses for all clients.
- falls within County ethics guidelines
- reasonable alternatives do not exist for obtaining the benefit of the proposed plan by a less expensive means
- does not exceed the limit of two (2) non-local conferences/seminars per fiscal year, subject to budget limitations.

- 4) Review Procedures

- a) Annually

- Due diligence/continuing education plans and associated costs for the upcoming fiscal year will be reviewed in conjunction with the development of the CRHBT annual budget request. A budget amount will be determined for Board members continuing education independent of Staff's due diligence and continuing education.
- Each member of the Board will report on the training or educational opportunities undertaken, and the methods used to keep current on trust and investment developments, to fulfill his/her fiduciary duty.

- b) Quarterly

- The Board will review specific due diligence/continuing education requests (meeting or conference information, estimated costs, and other pertinent information) to ensure compliance with Board policy.
- The Board will review reports by members and staff on approved due diligence/continuing education requests, including conference information materials that may be examined in Board's offices.

c) Other

- Due diligence/continuing education requests not previously identified through the quarterly review process will be reviewed by the Compliance & Audit Committee, and must be approved in writing by a majority of the committee, and included in the subsequent quarterly report to the Board.

**C) Staff Requirement**

As defined within the Montgomery County Personnel Regulations, Section 14, Employee Development, funding for employee development obligates the staff member to remain employed with the County for a certain period (depending upon the amount funded) after completion of any department funded training in whole or in part by trust funds or reimburse the trust fund a pro-rated portion of the monies received.

**D) Local Meetings**

Local meetings and engagements associated with business or educational opportunities for Board members or staff, which meet the above referenced objectives and criteria, and which do not exceed the County's petty cash reimbursement limit will not be subject to the aforementioned Board review process.

**VI) CODE OF CONDUCT**

**A) Standards of Professional & Ethical Conduct**

The Board's Standards of Professional & Ethical Conduct was constructed based on a recommendation from the Chartered Financial Analyst (CFA) Institute. Adopting the code:

- Establishes an ethical framework for governing board members
- Shows commitment to the best interests of participants and beneficiaries

The Board of Trustees believes that all members of the Board of Trustees and all Board Staff must conduct themselves in a manner that promotes public confidence and in accordance with fundamental ethical principles of honesty, integrity, independence, fairness, openness, and competence.

All members of the Board of Trustees and Board Staff must:

- 1) Act in good faith and the best interest of the participants, beneficiaries and dependents.
- 2) Act with prudence and reasonable care.
- 3) Act with skill, competence, and diligence.
- 4) Maintain independence and objectivity by avoiding conflicts of interest.
- 5) Refrain from self-dealing and promoting personal interests.
- 6) Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.
- 7) Abide by all applicable laws, rules, and regulations, including the Montgomery County Code.
- 8) Treat all participants and beneficiaries fairly, objectively, and impartially.

- 9) Take actions that are consistent with the established mission of the CRHBT and the policies that support its mission.
- 10) Regularly review the efficiency and effectiveness of the Board's success in meeting its goals, including assessing the performance and actions of service providers including investment managers, consultants, banks, etc.
- 11) Communicate with the County's Chief Administrative Officer, the County Council, County funded and participating agencies, and regulatory agencies in a timely, accurate, and transparent manner.

In furtherance of these obligations and beliefs, all Board members and Staff must complete the annual affirmation of the Statement of Professional and Ethical Code.

## **B) Code of Conduct Guidance**

- 1) Act in good faith and in the best interest of the participants, beneficiaries and dependents.

The main purpose of the CRHBT is to serve as a funding mechanism for the County Government's, Montgomery County Public School's and Montgomery County College's health care liability. Trustees must safeguard the assets of the CRHBT in order to have assets to fund benefits to the participants, beneficiaries, and dependents. Trustees have a primary duty to act for the benefit of the participants, beneficiaries and dependents and must place the benefit of the participants, beneficiaries, and dependents above that of any agency, even though the trustee may be employed by or is appointed by the County Executive or recommended to the County Executive for appointment by another organization. Decisions must be made in good faith, without improper motive or purpose. As a general matter, trustees should consider whether the CRHBT is enhanced by any investment or action, and not swayed by other considerations.

- 2) Act with prudence and reasonable care.

Trustees must exhibit the care and prudence necessary to meet their obligations to participants, beneficiaries and dependents. Prudence requires acting with the appropriate levels of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances. Prudence also requires following the investment parameters set forth by the Board's investment policies in accordance with applicable law. It also requires appropriate knowledge of and action in balancing risk and return, seeking appropriate levels of diversification.

Trustees must maintain stable funding costs, keep costs down, and pay health benefits, as directed. Trustees must consider ensuring an adequate match between plan assets and liabilities. Consequently, the Board should carry out its activities in a way that does not impose an unnecessary financial burden on the County (where the interest of participants can be well served but without excessive burden to the County). Using care in overseeing the CRHBT assets requires trustees to act in a judicious manner to avoid harming participants, and beneficiaries.

The Board will employ experts to direct and implement the decisions of trustees. Both internal staff and outside consultants will be used for this purpose. These "designees" thereby partner with the Board in carrying out the responsibilities of this Code. In retaining and using such designees, the Board must ensure that the Board's decisions have a reasonable and adequate basis and that the Board adequately documents the decision process. While the actual investment decisions may be delegated to

investment managers, the Board retains overall responsibility for the assets of the CRHBT.

3) Act with skill, competence, and diligence.

Skill and diligence [and prudence] require trustees to be knowledgeable about the matters and duties with which they have been entrusted, including trust and pension laws; funding and liabilities; policies; and investments. Trustees should take any necessary training or educational opportunities, and keep current on pension and investment developments. Ignorance of a situation or improper course of action on matters the trustee is responsible for is a violation of this Code and the standard of care in the Montgomery County Code. Before taking action on behalf of the CRHBT, trustees must analyze the investment opportunities and should act only after undertaking due diligence to ensure there is sufficient knowledge about specific investments or strategies. Such analysis will depend on the investment style, strategy and policies adopted by the Board.

Trustees must have a thorough understanding of the strategies in which the CRHBT is investing; the basic structure and function of the selected investments and securities in which the CRHBT invests; how they are traded, their liquidity, and any other risks. Certain types of investments, such as hedge funds, private equity, or more sophisticated derivative instruments, necessitate more thorough investigation and understanding than fundamental investments such as straight-forward and transparent equity, fixed income, or mutual fund products.

A trustee must seek appropriate expert or professional guidance if he or she lacks the expertise necessary to make an informed decision. When making investment decisions, trustees can rely on the recommendations of external third-party service providers, consultants and Board staff, provided that the trustees have made reasonable and diligent efforts to determine that the recommendation has a reasonable basis. When evaluating investment research and recommendations, trustees should consider the assumptions used, such as risks, inflation and rates of return, and the thoroughness of the analysis performed, the timeliness of the information, and the objectivity and independence of the source. The decision process should be well documented. Trustees must not act, or fail to act, if they lack appropriate understanding or knowledge. Trustees should also develop monitoring policies and procedures for any duties that they delegate to consultants and investment managers.

4) Maintain independence and objectivity by avoiding conflicts of interest.

Trustees must avoid actual and potential conflicts of interest between their work with the CRHBT, other personal or outside interests and their full time employment. Outside duties, responsibilities or political interests must not influence decisions as the trustees must act for the benefit of beneficiaries and participants of the CRHBT. Trustees must put their duties to the CRHBT before their loyalty to their County agency, or the group recommending them for appointment to the Board. To the extent conflicts may not be avoided, trustees must recognize and take appropriate measures to deal with the conflict, including disclosing all real or perceived conflicts of interests to the Board and refraining from taking any action on behalf of the CRHBT in matters involving any real or perceived conflict. The overriding principle is that trustees should act in the best interests of the CRHBT and disclose any conflict of interest. Trustees should support the adoption of policies that insulate their decisions from political influence.

5) Refrain from self-dealing and promoting personal interests.

Trustees should not put themselves in position where their interests and the interests of the trust fund conflict. Trustees must not use the prestige or influence of their position for private gain or advantage. Trustees must adhere to the Ethics provision of the Montgomery County Code regarding any employment, contractual relationship, or any interest in firms that provide services to the trust fund. At a minimum, where such relationships are unavoidable, trustees must fully disclose the relationship. In addition, trustees should not be involved in any retention or termination decisions of such firms or otherwise vote on matters related to the trustee's firm.

- 6) Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.

Trustees must not receive or accept or solicit, directly or indirectly, any gift, service, favor, entertainment, or any other benefit, from anyone currently engaged by or seeking business from the CRHBT if it could reasonably be expected to influence a decision or be considered a reward. Trustees are subject to the Ethics provisions of the Montgomery County Code which limit the acceptance of gifts from service providers, consultants, potential investment targets, or other business partners to a minimal value (e.g., \$50/meal).

- 7) Abide by all applicable laws, rules, and regulations, including the terms of the Montgomery County Code.

Trust funds operate in a complex, varied, and rapidly changing regulatory environment. Generally, trustees are not expected to master the nuances of technical, complex law or become experts in compliance with trust fund regulation. Trustees should consult with the professional advisers retained by the Board to provide technical expertise on applicable law and regulation. Trustees should regularly investigate and ensure that the trust fund has adopted and updated compliance policies and procedures designed to comply with laws and regulations that govern the trust fund. Adopting and following policies and procedures are critical to ensure that the CRHBT meets its legal and ethical requirements. Documented compliance procedures will assist trustees in fulfilling the responsibilities enumerated in this Code.

- 8) Treat all participants and beneficiaries fairly, objectively, and impartially.

Trustees must treat all participants and beneficiaries in a fair and objective manner. Trustees must not give preferential treatment to beneficiaries within a particular class of participants or otherwise favor one class over the others. Trustees must balance the interests of all types of participants, treating each category of participant fairly and equally.

- 9) Take actions that are consistent with the established mission of the CRHBT and the policies that support that mission.

Trustees should develop and implement comprehensive written investment policies that set forth the mission, beliefs, and strategic investment plan that guide the investment decisions of the CRHBT (the "policies"). Trustees must only take investment actions that are consistent with the stated objectives and constraints of these established policies. Trustees must review and approve the investment policies as necessary, but at least annually, to ensure that the policies remain current. In developing the policies, trustees and their designees must consider the suitability of investments given the need of the trust fund, its future liabilities, risk tolerance, and diversification goals. Trustees must select investment options within the context of the stated mandates or strategies and appropriate asset allocation. The written policies

should include a discussion of risk tolerances, return objectives, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances. Generally, trustees should focus on long term stability and growth. The policies must comply with any legal or regulatory requirements.

- 10) Regularly review the efficiency and effectiveness of the Board's success in meeting its goals, including assessing the performance and actions of service providers including investment managers, consultants, banks, etc.

In addition to ensuring that investment managers and consultants retained by the Board adopt and comply adequate compliance and professional standards, trustees must review and compare investment manager performance assessments to the investment policy on a quarterly basis. Trustees must have the knowledge and understanding to critically review and verify the performance of its investment managers. Trustees should develop rules for hiring, firing, and retaining investment managers that foster a long term investment focus and which are consistent with the CRHBT's investment policies. Trustees should ensure that the investment managers, consultants, and other service providers employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions. Trustees must ensure that there are proper monitoring and control procedures for all service providers.

- 11) Communicate with the County's Chief Administrative Officer (CAO), the County Council, County funded and participating agencies and regulatory agencies in a timely, accurate, and transparent manner.

Full and fair disclosure of information is a fundamental ethical principle of capital markets and the investment services industry. Trustees must not misrepresent any aspect of their services or activities. Trustees must ensure that misrepresentation does not occur in any communications, including oral representations, electronic communications, or written materials (whether publicly disseminated or not). Communication is generally provided on a regular timetable and by the Board Chair, or his/her designee, not by individual trustees. Trustees have a duty to present performance information that is a fair representation of the CRHBT's investment record and includes all relevant factors. Trustees must also comply with the CAO, County Council and other regulatory agencies and submit required reports in a timely manner.

*This policy was derived from the Chartered Financial Analyst (CFA) Institute's Code of Conduct for Members of a Pension Scheme Governing Body ("the Code").*

## **VII) COMPLIANCE**

### **A) Disclosures**

All service providers must comply with the political contribution reporting requirements under Title 14 (section 14-104) of the Election Law Article of the Maryland Code and must transmit to the Board a copy of any report made to the State Board of Elections.

All service providers must disclose any payment, gift, benefit, or contribution, or request for such item, that they have provided during the previous calendar year to or on behalf of a Board member, Montgomery County employee or official, or any entity whose primary purpose is to benefit employees or retirees of Montgomery County in their capacity as County employees or retirees, or an entity which solicits in the name of a Board member or the County, except expenses paid in association with attendance at an annual meeting



or client conference for which payment of expenses has been offered to all other clients and/or Advisory Board members.

All service providers are required to disclose this information to the Board on an annual basis.

#### **B) Semi-Annual Risk and Quarterly Compliance**

Semi-Annual Risk. All service providers complete a questionnaire related to changes in their business operations including total assets, accounts under management, SEC audits, organization and personnel changes, trading environment updates, soft dollar arrangements, and other manager guidelines compliance factors.

Quarterly Compliance. Managers report to Staff on portfolio management compliance including but not limited to guideline adherence, strategy and model risk, derivatives positions, risk-adjusted performance data, and other manager guidelines compliance factors.

A summary is provided by Staff to the Board.

### **VIII) OTHER**

#### **A) Disaster Recovery**

Disaster Recovery Planning procedures help protect information of assets of the Trust in the event of an unforeseen catastrophe and allow for the continued ability to provide services while reducing the operational and financial impact of the loss or destruction of critical systems and data. The disaster recovery plan will be implemented by the appropriate Staff and reviewed frequently for relevance and appropriateness.

#### **B) Communication**

Communications by trustees, when acting in their capacity as trustees, should be consistent with their fiduciary duty to represent the interests of all Trust participants.

Article VIII of the Bylaws states the following:

“The Executive Director must respond to all public information requests in accordance with the State law on public records and rules adopted by the Board.”

All requests from the media or third parties for information regarding Board actions must be directed to the Executive Director, or his or her designee, who will respond accordingly. Official communications related to Board procurement processes and activities will be coordinated by the Executive Director. Staff will report items of significance to the Board as appropriate.

#### **C) Strategic Planning**

To systematically plan for the immediate and long-term challenges and needs of the CRHBT, Staff will engage in an annual strategic planning process with the Board. The strategic plan will generally cover a 3-5 year period and include goals and strategic initiatives. The strategic plan will be modified from time to time as needed.

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